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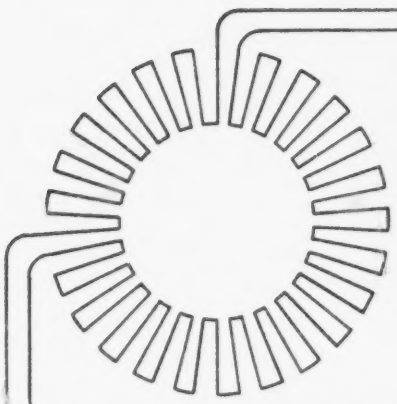

Center for Human Resource Research

The Inheritance of Earnings and Wealth

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The issue of equality of opportunity has generated considerable research effort in the social science community. Most of this effort has attempted to answer two related questions: How strong is the influence of family background on adult economic status? How is inequality transmitted from one generation to another? The answers to these questions vary greatly and have generated considerable debate among social scientists. The present research adds to this debate by analyzing an important dimension of both family background and adult economic status--wealth.

Few people deny that adult standing is influenced to some degree by one's social origins. The strength of that influence, however, remains unclear. Some researchers claim that family background explains only a small amount of the variation in adult status (usually indexed by earnings). These smaller estimates range from 3 to 20 percent (Sewell and Hauser, 1975; Jencks et al., 1972; Corcoran, Jencks, and Olneck, 1976). Others claim the influence is much stronger. After considering genetic factors, inadequate measures of social background, and measurement errors in background variables, researchers in this latter group estimate the influence of family background to range from 30 to 50 percent (Bowles, 1972; Taubman, 1976; Brittain, 1977). There are racial differences in these estimates--the influence of family background on the economic status of blacks appears to be weaker than for whites, although these differences are smaller in more recent cohorts (Featherman and Hauser, 1976).

Considerable disagreement also exists concerning <u>how</u> family

background influences adult economic status. Some observers claim that the effects of family background are largely indirect, operating through its effects on ability and schooling (Duncan, Featherman and Duncan, 1972; Featherman and Hauser, 1976). These observations appear to hold for both whites and blacks. Others say the influence is largely direct (Brittain, 1977; Bowles, 1972). The aspects of family background that exert this influence are in dispute as well. Most attention has focused on environmental factors, indexed by measures of father's and mother's education, father's occupational status, and household composition (e.g., number of siblings). These aspects of family background are largely social and are thought to influence a child's early cognitive development (human capital), motivation, values, and aspirations.[1] Recent studies of twins suggest that the genetic component of family background is also important and may, in fact, overshadow the environmental component (Taubman, 1976).

One aspect of family background that has received scant attention is parental wealth. Most often this component of family background is overlooked because the data used to investigate this issue do not contain any (or adequate) information on the financial position of a person's parents. Although other components of family background, such as father's education, are undoubtedly related to a family's financial position, excluding wealth could not only overstate the influence of other environmental components, but also understate the total influence that family background exerts on adult economic status

(Bowles, 1972). The existing research that does include measures of family wealth (usually family income) shows that the financial aspect of family background exerts both direct and indirect effects on adult status (Bowles, 1972; Parsons, 1975; Brittain, 1977; Hauser and Daymont, 1977).

Several explanations could account for the direct influence of parental wealth: parents could directly transfer physical capital to their children; children from well-to-do families may have better connections for locating and securing well-paying jobs (Granovetter, 1974); wealthy parents could subsidize their children's job search which could also lead to higher earnings and wealth; wealthy parents could instill a "taste" in their children for higher earnings and material wealth (Bowman, 1976); wealthy parents could instill in their children the value of saving--the foregoing of present consumption for future well-being; finally, the acquisition of material wealth could come about through assortative mating--children of wealthy parents marrying into other wealthy families (Brittain, 1977; Meade, 1976). The indirect influence of parental wealth, operating through schooling, could reflect the ability of wealthy parents to finance their children's education. Just as with other aspects of family background, identifying the specific mechanisms through which parental wealth operates is a rather formidable task. But whatever mechanisms explain its influence, parental wealth constitutes an important aspect of family background largely ignored in the literature.

Wealth is important not only as a determinant of adult

attainment, but as a measure of economic status itself. Most research on inequality has focused on adult earnings or occupational status, not wealth. This focus exists predominantly because of inadequate data, not because of theoretical disinterest. In fact, wealth may be a more accurate and conceptually appealing measure of economic status and, consequently, a more appropriate measure of inequality (Campbell and Henretta, 1980). It is well known that the distribution of wealth is more unequal than the distribution of earnings (Blinder, 1974). Furthermore, earnings are subject to considerable variations from year to year, making them a rather unstable measure of economic well-being (Kohen, Parnes, and Shea, 1975). Using earnings as a measure of economic status may also understate the degree to which inequality is transmitted from generation to generation. And finally, although differences in human capital may account for much of the observed differences in earnings (Mincer, 1974), differences in wealth are more likely to arise because of the direct transfer of physical capital from one generation to another (Osman, 1977; Sahota, 1978).

The present study examines the role that wealth plays in transmitting economic inequality from one generation to another, particularly between parents and their sons. Two aspects are considered: the influence of parental wealth and other aspects of family background on son's earnings; and the influence of total family background, including parental wealth, on son's wealth. Since previous research has shown that the influence of family background varies by race groups, separate analyses are

performed on whites and blacks.

I. THE MODEL

The conceptual framework of this research is based on the widely held belief that family background influences adult economic status both directly and indirectly. The indirect effects appear to operate through a number of intervening mechanisms, the most important being schooling. There is less agreement concerning the importance of other factors. The role of ability has generated considerable debate (Griliches, 1976; 1977). More elaborate models attempt to measure the effects of other intervening variables--such as aspirations and peer influences--in order to further disentangle the influence of family background (Sewell and Hauser, 1975).

The intent of the present study is to focus on the wealth component of both family background and adult economic status. A rather simple recursive model is used to specify the relationship between background and status:

$$\ln Y = a_1 + b_1 S + c_1 A + d_1 F + e_1 X + u_1, \quad (1)$$

$$S = a_2 + c_2 A + d_2 F + u_2, \quad (2)$$

$$A = a_3 + d_3 F + u_3, \quad (3)$$

where Y is earnings, S is schooling, A is ability, F is a vector of family background characteristics (including parental wealth), X is a vector of control variables such as experience, region, and marital status, and u_1, u_2, and u_3 are disturbance terms. These models assume a linear (or semilog, in the case of earnings) relationship between the dependent and independent

variables. A further assumption, that the disturbance terms are uncorrelated (that is, $E(u_1u_2) = E(u_1u_3) = 0$), means the system of equations is recursive, and unbiased estimators of the coefficients can be obtained with ordinary least squares. This latter assumption is unnecessary to produce unbiased, reduced-form estimates of the total effects of family background on earnings:[2]

$$\ln Y = a_4 + d_4F + u_4. \tag{4}$$

Wealth, as another measure of adult economic status, is assumed to follow the same structural relationships as earnings except, of course, that earnings will also influence the accumulation of wealth. These relationships are captured in the following model:

$$\ln W = a_5 + b_5S + c_5A + d_5F + e_5X + f_5\ln Y + u_5, \tag{5}$$

where W is wealth and the remainder of the variables are the same as in equation (1). Again unbiased estimates in the structural equations require $E(u_1u_5) = 0$, but the assumption is not required to obtain unbiased, reduced-form estimates:

$$\ln W = a_6 + d_6F + u_6. \tag{6}$$

This series of equations is used to examine the total effect of family background, including parental wealth, on adult economic status, where status is measured by wealth as well as the traditional measure of earnings.[3]

II. DATA AND VARIABLES

Data for this study come from a matched subsample of fathers and sons constructed from two cohorts in the National

Longitudinal Surveys of Labor Market Experience (NLS)--older men who were 45-59 years of age in 1966 and younger men who were 14-24 years of age in 1966.[4] Both cohorts are based on national samples of the civilian noninstitutional population of males for each age group, with blacks overrepresented. In order to qualify as part of the subsample, the father had to report the son in his household at the time of interview and the son, when interviewed, had to report the father in his household. Ages were matched using household records; the son's age reported on the father's household record had to fall within one year of the age the son reported, and the father's age on the son's household record had to fall within one year of the age the father reported.

This procedure resulted in a subsample of 1,097 matched fathers and sons out of approximately 5,000 respondents in each of the original cohorts. The sample was further restricted to young men who were interviewed in 1976 (the last survey for which data are currently available) and not enrolled in school, leaving 694 valid cases. Of these, 542 cases had valid responses for the two key variables, parental wealth in 1966 and son's wealth in 1976.[5] Finally, missing values on the other variables reduced the sample to 482 respondents--366 whites, 109 blacks, and 7 other races. Since one of the aims of the research is to test for racial differences in the structural relationships between family background and economic status, estimates were based on separate analyses for whites and blacks.

The major advantage of this data set is that it provides information on a key, and perhaps essential, component of

economic status--wealth. For both fathers and sons, wealth is ascertained in several survey years through a series of questions on the net value of family assets, including the respondent's home, real estate and business, savings, and outstanding debt.[6] These data, especially parental wealth, are generally unavailable from other data sources. Most other studies that examine family background rely on respondents' recalling information about their parents' education, occupation, and household environment. While this procedure may yield accurate information about these particular aspects of family background (Borus and Nestel, 1973), it is unlikely to produce an accurate estimate of parental wealth.[7]

There are limitations to the data, however. One pertains to the representativeness of the sample and, therefore, the ability to generalize the results. Because of the ages of the two cohorts used to construct the subsample, it is unlikely that the father-son subsample is representative of fathers and sons in the population as a whole.[8] In order to get some idea of the sample's representativeness, the fathers and sons were compared to the larger samples of older and younger men in the NLS. The means and standard deviations for all the variables used in the regression analysis are shown in Table 1, together with comparable figures from the older and younger men's cohorts. Figures for whites and blacks are shown separately. Table 2 contains detailed descriptions of all the variables. The comparisons show that the fathers and sons do not differ greatly from the other older and younger men in the NLS cohorts. Sons,

Table 1 Means (and Standard Deviations) of Father-Son Subsample and Comparisons with NLS Cohorts: White and Black Males, 1976

Variable	Whites		Blacks	
	Young men	Father-son	Young men	Father-son
N	1946	366	371	109
LNASSETS	1.9 (1.6)	1.7 (1.5)	0.6 (1.1)	0.6 (1.0)
LNEARN	9.3 (0.7)	9.3 (0.7)	8.8 (0.8)	8.8 (0.9)
EDUC	13.7 (2.5)	14.1 (2.3)	12.2 (2.8)	12.3 (2.9)
KWW	35.6 (7.6)	35.4 (7.4)	26.7 (8.6)	26.6 (8.9)
DADED	10.4[a] (3.4)	10.7 (3.2)	7.2[a] (4.0)	6.9 (3.7)
CUL	2.5 (0.8)	2.6 (0.7)	1.6 (1.1)	1.6 (1.1)
SIB	2.8 (2.1)	2.8 (2.1)	5.1 (3.1)	5.1 (3.0)
LNMASS	2.4[b] (1.5)	3.0 (1.5)	0.9[b] (1.1)	1.3 (1.3)
MAGE	51.4[b] (4.3)	50.0 (3.9)	51.6[b] (4.2)	50.4 (3.6)
SELFDAD	0.20[b] (0.44)	0.21 (0.41)	0.10[b] (0.29)	0.12 (0.33)
AGE	28.2 (3.2)	27.5 (2.5)	27.6 (3.1)	27.2 (2.7)
XPSEXP	0.53 (0.23)	0.57 (0.21)	0.51 (0.23)	0.53 (0.23)
SOUTH	0.31 (0.46)	0.27 (0.44)	0.70 (0.46)	0.68 (0.47)
MAR	0.75 (0.44)	0.69 (0.46)	0.62 (0.49)	0.53 (0.50)
HEALTH	0.08 (0.27)	0.08 (0.27)	0.06 (0.25)	0.10 (0.30)
HOME	0.56 (0.50)	0.49 (0.50)	0.34 (0.47)	0.30 (0.46)
SELF	0.11 (0.31)	0.07 (0.26)	0.04 (0.35)	0.04 (0.19)

NOTE: The Young Men's sample and the Father-Son subsample were restricted to young men who were interviewed in 1976 and not enrolled in school. See Table 2 for a description of all variables.

[a]Calculated from young men's data. [b]Calculated from the older men's sample. N = 2756 for whites, N = 1203 for blacks.

Table 2 Description of Variables

Variables	Description
LNASSETS	Natural logarithm of son's net family assets/1000, 1976.
LNEARN	Natural logarithm of son's total annual earnings, 1976.
EDUC	Son's years of schooling completed, 1976.
KWW	Son's total score on "Knowledge of the Working World Test," 1966.[a]
DADED	Father's years of schooling completed, 1966.
CUL	Availability of newspapers, magazines and library cards in parents' household, 1966.
SIB	The number of son's siblings, 1966.
LNMASS	Natural logarithm of father's net family assets/1000, 1966.
MAGE	Father's age, 1966.
SELFDAD	A dummy variable = 1 if father is self-employed, 1966.
AGE	Son's age, 1976.
XPSEXP	Exponent (-.1 x PSEXP), where PSEXP is years since son left school, 1976.
SOUTH	A dummy variable = 1 if son's current residence is in the South, 1976.
MAR	A dummy variable = 1 if son is married with spouse present, 1976.
HEALTH	A dummy variable = 1 if son has a health problem that limits work, 1976.
HOME	A dummy variable = 1 if son owns his own home, 1976.
SELF	A dummy variable = 1 if son is self-employed, 1976.

[a]See Parnes, Miljus, and Spitz (1970: 120-121).

both white and black, are comparable in age to their respective counterparts in the young men's cohort. The fathers are somewhat younger than men in the 45-59 year old age group generally, but this simply reflects the age at which they had their families (see footnote 8). The financial variables, son's assets (LNASSETS), son's earnings (LNEARN), and father's assets (LNMASS), are also similar to whites' both in the father-son subsample and the full sample of young men, while son's and father's assets are substantially lower for blacks than whites in both groups.

The ages of the sons (24-34 in 1976) and the ages of their fathers (45-59 in 1966) limits the analysis in another way. It restricts comparisons of father's wealth rather late in their life cycle to their son's wealth early in their life cycle, before they have accumulated much wealth.[9] Moreover, this limitation precludes an analysis of one important measure of wealth transfer--inheritance--because most of the fathers are still alive in 1976.

In spite of these limitations, the data provide a unique opportunity to examine the relationship between father's wealth and son's wealth. The relationship is examined with the structural equations described in the previous section, using a series of variables which are now described.

The dependent variables are wealth, earnings, schooling, and ability. Wealth (LNASSETS) is the logarithm of total net family assets (in $1000) in 1976.[10] Earnings (LNEARN) is the logarithm of total annual earnings in 1976.[11] Schooling (EDUC) represents

the number of years of regular schooling completed by 1976. Ability (KWW) is measured with the score from a test on the "knowledge of the world of work."[12] Although not an ideal measure, previous research with the NLS data has shown this to be a good proxy for mental ability when used in earnings equations (Griliches, 1976).[13]

Family background is measured with a series of variables--parental wealth, father's education, a measure of culture in the household, and the number of siblings. Parental wealth (LNMASS) is the logarithm of father's net family assets (in $1000) in 1966 (1976 dollars).[14] Father's education (DADED) represents the father's years of regular schooling completed as of 1966. Culture (CUL) is a cumulative index measuring the availability of newspapers, magazines, and library cards in the parent's household when the son was 14 years old. Siblings (SIB) is the number of siblings the son reported in 1966.

The remainder of the variables used in the analysis consist of various controls characterizing the son in 1976--his age (AGE), a nonlinear form of postschool experience (XPSEXP = exponent - 0.1 x years since leaving school),[15] and binary variables for a health problem that limits work (HEALTH), married with spouse present (MAR), and current residence in the South (SOUTH).[16] In some estimates, additional dummy variables were introduced, representing home ownership (HOME), son's self-employment (SELF), and father's self-employment (SELFDAD). These descriptions are summarized in Table 2.

Table 3 Regression Estimates for Ability, Schooling, and Earnings: White and Black Males, 1976

Sample (N) Dependent variable	Coefficients (absolute t-ratios) EDUC	 KWW	 DADED	 CUL	 SIB	 LNMASS	Other variables in equations	R^2(adj)
1. Whites (N = 366)								
1.1 KWW	--	--	0.408 (3.26)	1.523 (2.87)	-1.006 (5.92)	0.013 (0.05)	--	.175
1.2 EDUC	--	0.088 (6.02)	0.179 (5.07)	0.504 (3.37)	-0.175 (3.53)	0.152 (2.10)	--	.359
1.3 LNEARN	0.091 (4.26)	0.007 (1.30)	-0.013 (1.10)	0.044 (0.85)	0.002 (0.09)	--	HEALTH, MAR, SOUTH, XPSEXP	.108
1.4 LNEARN	0.087 (4.12)	0.007 (1.35)	-0.023 (1.87)	0.021 (0.40)	0.002 (0.10)	0.077 (3.10)	HEALTH, MAR, SOUTH, XPSEXP	.129
1.5 LNEARN	--	--	-0.008 (0.63)	0.079 (1.50)	-0.008 (0.47)	0.074 (2.89)	AGE	.047
2. Blacks (N=109)								
2.1 KWW	--	--	0.541 (2.64)	2.88 (4.07)	-0.722 (3.15)	0.336 (0.57)	--	.431
2.2 EDUC	--	0.133 (4.17)	0.091 (1.31)	0.198 (0.79)	-0.109 (1.39)	0.368 (1.92)	--	.431
2.3 LNEARN	0.090 (2.15)	0.011 (0.87)	0.009 (0.37)	0.081 (0.95)	0.003 (0.12)	--	HEALTH, MAR, SOUTH, XPSEXP	.261
2.4 LNEARN	0.085 (2.01)	0.011 (0.91)	0.007 (0.27)	0.069 (0.79)	0.006 (0.21)	0.047 (0.67)	HEALTH, MAR, SOUTH, XPSEXP	.257
2.5 LNEARN	--	--	0.033 (1.29)	0.109 (1.24)	0.004 (0.15)	0.107 (1.47)	AGE	.105

NOTE: Estimates are based on a matched sample of fathers and sons from the National Longitudinal Surveys of Labor Market Experience. The sample was restricted to young men who were interviewed in 1976 and not enrolled in school. See Table 2 for a description of all variables.

III. THE EFFECT OF FAMILY BACKGROUND ON EARNINGS

The first part of the analysis examines the influence of parental wealth and other family background characteristics on earnings. Both structural and reduced-form estimates are derived. Separate estimates for white and black males appear in Table 3.

Ability (KWW) is not influenced by parental wealth (equations 1.1 and 2.1), but it is affected by the social environment of the family--father's education (DADED) and the availability of reading material in the home (CUL) exert a positive influence, while ability is inversely affected by the number of siblings (SIB).[17] Although this relationship is similar for both whites and blacks, family background characteristics explain much more of the variance in the ability of blacks than whites (.431 versus .175).

Parental wealth (LNMASS) has a positive effect on years of schooling (equations 1.2 and 2.2) even after controlling for ability and other family background characteristics. For whites, a 100 percent improvement in parental wealth increases schooling by about .1 years; for blacks it would increase schooling by about .3 years. The other components of family background also influence years of schooling for whites but, for blacks, parental wealth is the only significant influence. The positive effect of wealth suggests that the amount of schooling completed may depend, in part, on the ability of parents to finance their children's education.

In the structural earnings equations for whites (equations

1.3 and 1.4), parental wealth (LNMASS) has a direct and independent effect on earnings, even afer controlling for schooling (EDUC), ability (KWW), and other family background characteristics. A 100 percent improvement in parental wealth is associated with approximately an 8 percent increase in earnings. The coefficient of ability is not significant, while the schooling coefficient is significant and of comparable magnitude to other estimates (Mincer, 1974; Griliches, 1976). Curiously, the coefficient for father's education is significant and negative. Other background variables (CUL and SIB) were not statistically significant.

For blacks, no family background variables have a statistically significant influence on earnings after controlling for schooling and ability (equation 2.3 and 2.4). In fact, only the schooling coefficient is significant.

The reduced form estimates (equations 1.5 and 2.5) show that family background variables as a group explain only a small amount of the variance in earnings for both whites and blacks (.047 and .105, respectively).[18] Nonetheless, based on the means and standard deviations in Table 1, an increase of one standard deviation in parental wealth increases earnings a greater amount than corresponding increases in any other family background variable.

These estimates are consistent with those derived in other studies that examine the influence of parental wealth (or income) on earnings (Bowles, 1972; Brittain, 1977; Hauser and Daymont, 1977).[19] In each of these studies, parental wealth had a strong

effect on schooling as well as a direct, independent influence on earnings after controlling for schooling.

IV. THE EFFECT OF FAMILY BACKGROUND ON WEALTH

The recursive model used to examine the influence of parental wealth and other family background characteristics on wealth is similar to the previous model, except earnings now serve as an intervening variable in the determination of wealth. Again both structural and reduced-form estimates are derived. Estimates for whites and blacks appear in Table 4.

The estimates for white males, excluding earnings (equation 3.1), show the coefficients for schooling and parental wealth are both significant, while ability and other background variables are not.[20] A 100 percent improvement in parental wealth is associated with about a 32 percent increase in son's wealth. A year of schooling is associated with about a 12 percent increase in wealth. When earnings is introduced (equation 3.2), the coefficients for schooling and parental wealth decrease to .08 and .28, respectively, while the coefficient for earnings is large (.50) and significant. When additional variables are introduced, controlling for home ownership (HOME), son's self-employment (SELF), and father's self-employment (SELFDAD), the coefficient for parental wealth declines further. These coefficients will be discussed shortly. Finally, the reduced-form estimates show the total effect of family background on wealth, with parental wealth being the most important component. The amount of variance in wealth explained by family

Table 4 Regression Estimates for Family Wealth: White and Black Males, 1976

Sample (N) Dependent variable	Coefficients (absolute t-ratios) LNEARN	EDUC	KWW	DADED	CUL	SIB	LNMASS	Other variables in equation	R^2(adj)
3. Whites (N=366)									
3.1 LNASSETS	--	0.120 (2.61)	0.018 (1.53)	-0.037 (1.37)	-0.052 (0.46)	-0.029 (0.78)	0.322 (5.97)	HEALTH, MAR, SOUTH, XPSEXP	.188
3.2 LNASSETS	0.498 (4.43)	0.076 (1.67)	0.014 (1.25)	-0.026 (0.96)	-0.062 (0.56)	-0.030 (0.82)	0.284 (5.33)	HEALTH, MAR, SOUTH, XPSEXP	.228
3.3 LNASSETS	0.282 (2.77)	0.092 (2.27)	0.012 (1.24)	-0.024 (1.01)	-0.007 (0.07)	0.001 (0.03)	0.276 (5.85)	HEALTH, MAR, SOUTH, XPSEXP, HOME	.398
3.4 LNASSETS	0.355 (3.66)	0.079 (2.07)	0.009 (0.94)	-0.013 (0.59)	0.052 (0.57)	-0.013 (0.41)	0.191 (3.93)	HEALTH, MAR, SOUTH, XPSEXP, HOME, SELF, SELFDAD	.466
3.5 LNASSETS	--	--	--	-0.025 (0.96)	0.088 (0.79)	-0.027 (0.74)	0.325 (5.91)	AGE	.140
4. Blacks (N=109)									
4.1 LNASSETS	--	-0.001 (0.00)	0.020 (1.44)	-0.018 (0.65)	0.038 (0.38)	-0.005 (0.17)	0.091 (1.14)	HEALTH, MAR, SOUTH, XPSEXP	.212
4.2 LNASSETS	0.157 (1.36)	-0.014 (0.28)	0.018 (1.32)	-0.019 (0.69)	0.027 (0.27)	-0.006 (0.20)	0.083 (1.05)	HEALTH, MAR, SOUTH, XPSEXP	.218
4.3 LNASSETS	0.121 (1.39)	-0.019 (0.50)	0.010 (0.99)	-0.002 (0.09)	0.010 (0.14)	0.004 (0.18)	0.070 (1.17)	HEALTH, MAR, SOUTH, XPSEXP, HOME	.554
4.4 LNASSETS	0.130 (1.39)	-0.018 (0.47)	0.009 (0.87)	0.000 (0.03)	0.016 (0.21)	0.001 (0.03)	0.068 (1.11)	HEALTH, MAR, SOUTH, XPSEXP, HOME, SELF, SELFDAD	.547
4.5 LNASSETS	--	--	--	0.001 (0.04)	0.061 (0.61)	-0.016 (0.50)	0.114 (1.39)	AGE	.081

NOTE: Estimates are based on a matched sample of fathers and sons from the National Longitudinal Surveys of Labor Market Experience. The sample was restricted to young men who were interviewed in 1976 and not enrolled in school. See Table 2 for a description of all variables.

background is more than twice that explained in earnings (.120 versus .047).

For blacks, parental wealth does not exert any direct influence on wealth after controlling for its effects on schooling and earnings. This does not necessarily mean that family background, and particularly parental wealth, is not as strong an influence on the economic status of blacks as it is for whites. Average wealth among blacks, both parents and sons, is less than half that of whites (see Table 1). The strong effect of parental wealth on son's wealth which was observed for whites may indicate that parents have to be above a certain level of wealth before they can affect the financial position of their children.

In addition to the family background, schooling, and ability variables, a number of control variables were used in the structural equations. The coefficients of all variables for equations 1.4 and 2.4 from Table 3 (with the addition of SELF and SELFDAD) and equations 3.4 and 4.4 from Table 4 appear in Table 5. The effects of the control variables on earnings and wealth were generally as expected. For both whites and blacks, the presence of a health problem (HEALTH) has a negative effect on earnings, but not on assets. Similarly, marriage (MAR) has a positive effect on the earnings of both whites and blacks, but no significant effect on assets. For whites but not blacks, the coefficient for south (SOUTH) is negative and significant. Experience, represented in a negative exponential form (XPSEXP), has a positive and significant effect on both earnings and wealth

Table 5 Regression Estimates for Earnings and Wealth: White and Black Males, 1976

Variable	Whites		Blacks	
	LNEARN (1.4)	LNASSETS (3.4)	LNEARN (2.4)	LNASSETS (4.4)
EDUC	0.088 (4.21)	0.079 (2.07)	0.077 (1.90)	-0.018 (0.47)
KWW	0.008 (1.56)	0.009 (0.94)	0.014 (1.22)	0.009 (0.87)
HEALTH	-0.256 (2.03)	0.181 (0.80)	-0.599 (2.57)	0.090 (0.40)
MAR	0.159 (2.20)	0.011 (0.07)	0.274 (1.89)	0.029 (0.18)
SOUTH	-0.174 (2.22)	-0.474 (3.37)	-0.253 (1.57)	-0.100 (0.66)
XPSEXP	-0.862 (4.40)	-0.745 (2.08)	-0.901 (2.16)	0.085 (0.21)
DADED	-0.020 (1.60)	-0.013 (0.59)	0.004 (0.16)	0.000 (0.03)
CUL	0.016 (0.32)	0.052 (0.57)	0.035 (0.42)	0.016 (0.21)
SIB	0.003 (0.02)	-0.013 (0.41)	-0.011 (0.39)	0.001 (0.03)
LNMASS	0.071 (2.61)	0.191 (3.93)	0.069 (1.05)	0.068 (1.11)
HOME	--	1.470 (10.74)	--	1.483 (8.48)
SELF	-0.368 (2.83)	1.502 (6.41)	-1.359 (3.53)	0.018 (0.04)
SELFDAD	0.155 (1.69)	0.249 (1.51)	-0.165 (0.71)	0.155 (0.72)
LNEARN	--	0.355 (3.66)	--	0.130 (1.39)
Constant	8.126	-3.858	8.035	-1.206
R^2 (adj)	.147	.466	.338	.547

NOTE: Estimates are based on a matched sample of fathers and sons from the National Longitudinal Surveys of Labor Market Experience. The sample was restricted to young men who were interviewed in 1976 and not enrolled in school. See Table 2 for a description of all variables. Absolute t-ratios are in parentheses.

for whites, but for blacks the coefficient is only significant in the earnings equation.

The dummy variables indicating home ownership (HOME), son's self-employment (SELF), and father's self-employment (SELFDAD) give some insight into other factors affecting earnings and wealth. Home ownership is an important component of wealth for young men. In fact, for blacks that one variable accounts for 31 percent of the variance in wealth.[21] Young white and black males who are self-employed have significantly lower earnings than other young men. But self-employed whites also have significantly higher assets. This could simply indicate that the self-employed forego present earnings and invest money in business assets. Or it could suggest that wealthy parents transfer physical wealth to their sons which, in turn, increases their son's assets and generates earnings.[22] For example, wealthy parents could invest in their son's business.

What could account for the influence of parental wealth on the earnings of young white males? Several explanations were suggested in the introduction to this paper--direct transfers of physical capital; connections for finding well-paying jobs; subsidies for job search; tastes and values favoring the accumulation of assets; social contacts resulting in marriage into well-to-do families.[23] All of these conjectures are consistent with the present findings, but none can be proven to the exclusion of the others. The NLS data do allow us to explore one possible mechanism relating parent's wealth to son's wealth--the direct transfer of material wealth. Two additional financial

variables were constructed from the NLS data. One measures the total amount of financial assistance received by young men from their parents between 1966 and 1976 (LNMONEY);[24] the other is the amount of any inheritance that the young men expect to receive from their parents, as of 1976 (LNINHER). These two variables were regressed on parental wealth (LNMASS). The coefficients appear in Table 6. The results suggest that physical wealth is transferred directly from parents to their offspring, both through gifts and inheritance.[25]

V. SUMMARY AND POLICY IMPLICATIONS

This paper examined the role of wealth in explaining the relationship between family background and adult economic status for white and black males. Wealth was treated both as a component of family background and as a measure of adult economic status. As a financial component of family background, parental wealth exerts an influence on schooling that is independent of other, social components of family environment. This influence is stronger for black males than white males. For white males, parental wealth also has a direct effect on earnings, even after controlling for its effects on schooling. For black males, however, there is no direct effect of parental wealth on earnings. But this may simply reflect the lower wealth status of black parents compared to white parents. Also for white males, parental wealth has a direct effect on son's wealth after controlling for its effects on schooling and earnings. And the total effect of parental wealth on the wealth of white males is

Table 6 Regression Estimates and Means of Financial Support and Expected Inheritance: White and Black Males, 1976

Sample (N) Dependent Variable	Mean (standard deviation)	Coefficient (absolute t-ratio) Constant	LNMASS	R^2(adj)
5. Whites (N = 366)				
5.1 LNMONEY	1.5 (2.8)	0.770	0.241 (2.44)	0.013
5.2 LNINHER	3.3 (4.6)	1.941	0.441 (2.78)	0.018
6. Blacks (N = 109)				
6.1 LNMONEY	0.3 (1.5)	0.118	0.168 (1.51)	0.012
6.2 LNINHER	1.2 (3.2)	0.682	0.619 (2.64)	0.052

NOTE: Estimates are based on a matched sample of fathers and sons from the National Longitudinal Surveys of Labor Market Experience. The sample was restricted to young men who were interviewed in 1976 and not enrolled in school. LNMONEY = the logarithm of total financial assistance received by the young man from his parents between 1966 and 1976; LNINHER = the logarithm of the amount of expected inheritance from parents, 1976; and LNMASS = the logarithm of parent's total net family assets (in $1000) in 1966 (in 1976 dollars).

much stronger than its effect on earnings.

What do these results suggest about government policies designed to promote equality of opportunity? Consistent with previous research, family background has a direct effect on educational attainment which, in turn, directly affects adult economic status. Consequently, compensatory education and training programs should help mediate the influence of family background and thus promote equality of opportunity.

Yet these programs are unlikely to eliminate the transmission of economic inequality from one generation to another. Apart from its indirect influence on adult status, family background also exerts a direct influence. Although a number of specific mechanisms might explain this effect, one factor is undoubtedly the direct transfer of material wealth from parents to their offspring. And while government tax laws do reduce their amount, inter-generational transfers remain an important source of wealth inequality in our country (Osman, 1977).

Promoting equality of opportunity constitutes a primary concern of many social policies. Over the years policy makers have enacted a series of laws and regulations to end discrimination based on a person's race, sex, marital status, religion, and nationality. They have also funded education and training programs in order to improve the opportunities of the disadvantaged (Levin, 1977). Just how successful these policies have been in reducing the transmission of social privilege from one generation to another is a matter of debate. A more

fundamental issue is whether our society, or any society, can ever reach a time when everyone, regardless of social origin, has an equal opportunity to achieve life's rewards.

Footnotes

[1]Hill and Stafford (1974) and Leibowitz (1977) discuss preschool human capital formation. Wright and Wright (1976), and Skvoretz and Kheoruenromne (1979) discuss the transmission of values from one generation to another.

[2]Blinder (1973) examines differences between structural and reduced-form estimates of wage equations for white males, black males, and white females.

[3]Campbell and Henretta (1980) explore more complex, multidimensional models of wealth determination.

[4]For a full description of all the NLS surveys, see Center for Human Resource Research (1980).

[5]The majority of the missing information involved parental wealth from the father's cohort. In subsequent work the number was reduced by substituting information from other survey years (1969, 1971, and 1976) for missing components of wealth in 1966. Estimates using the increased sample were similar to those reported in this paper.

[6]More specifically, net family assets are composed of: market value of home or apartment minus outstanding debt; value of savings; value of U.S. savings bonds; value of stocks, bonds, and mutual funds; market value of farm, business, or other real estate minus outstanding debt; and the amount of any other outstanding debt. Other asset measures (e.g., taking average values of each component for all years--1966, 1969, 1971, 1976--to produce "permanent" assets) were constructed, but they yielded similar estimates. Because of inadequate data, the net value of family automobiles is excluded from assets.

[7]Respondents in the young men's cohorts were asked their parents' total family income in 1966. The zero-order correlation between this figure in the father-son subsample and total family income reported by the fathers was .22. The correlation between parental income reported by the son and net family assets reported by the father was .54.

[8]Frank Mott, of the Center staff, pointed out that a large number of the fathers probably served in the armed forces during World War II and, consequently, started their families rather late. Because of the young men's ages (14-24 years of age in 1966; born from 1942 to 1952), a disproportionate number of them were probably later children.

[9]For a discussion of the influence of family background on socioeconomic status over the life cycle, see Henretta and Campbell (1976, 1978), Featherman and Hauser (1976), and Hauser and Daymont (1977).

[10]Assets less than $1000 were assigned the value of $1000 in order to remain in the equations. Estimates based only on cases with assets greater than $1000 produced similar results.

[11]The small number of cases with nonpositive earnings were dropped from the analysis.

[12]For a description of this test and its meaning, see Parnes, Miljus, and Spitz (1970: 120-121).

[13]One problem in using KWW is that the test was administered in 1966, the first year of interviews for the young men, by which time some of the young men were no longer in school. Consequently, the structural relationship specified in equations (2) and (3), where schooling is a function of prior ability and family background is incorrect. But since the primary focus of the present analysis is to study the relationship between family background and economic status (i.e., earnings and wealth), this problem simply introduces a bias in the coefficients of the intervening variables. Griliches (1976) investigates this problem in depth. He finds that KWW is a satisfactory measure of early ability (IQ) in earnings equations even after allowing for the endogeneity of schooling and ability. IQ was not used in the present study because data were missing for a large proportion (approximately 20 percent) of sample cases.

[14]Although similar components were used to construct fathers' and sons' assets (see footnote 6), a more detailed series of questions were used to ascertain fathers' assets. In addition, fathers' assets included the amount of personal loans and mortgages held; sons' assets did not.

[15]This specification is borrowed from Griliches (1976).

[16]Originally, two other independent variables were included in the model--years of military experience and a dummy variable for current residence in an SMSA. But after initial estimates they proved insignificant and were dropped from subsequent estimates.

[17]Originally, a variable for mother's education was also included. But the coefficient was insignificant and the variable was dropped from subsequent estimates.

[18]The variance explained in reduced-form estimates for various background characteristics from other data sources range from .009 to .191. See Corcoran, Jencks, and Olneck (1976).

[19]Of course the data in these studies vary greatly. Only Brittain uses a measure of parental wealth; Parsons uses father's wage rate, Bowles, and Hauser and Daymont use family income.

[20]Among older white men, Henretta and Campbell (1978) found

that family background (measured by father's education and occupational status) influenced wealth (net worth) indirectly, through its effect on educational attainment. But they did not have a measure of parental wealth which, the present analysis shows, has a direct effect after controlling for ability and schooling.

[21]Jackman and Jackman (1980) found that not only are blacks less likely than whites to own their own home, the value of homes owned by blacks is lower than the value of homes owned by whites. The NLS data used in the present study confirm these observations.

[22]This idea was first pointed out to me by Tom Daymont. See Hauser and Daymont (1977: 196).

[23]To test this latter proposition equation 3.4 in Table 4 was estimated for single, white males. The coefficient for parental wealth (LNMASS) was .388 compared to .191 for both married and single males. Thus it does not appear that the influence of parental wealth is brought about by sons of wealthy parents marrying daughters of other wealthy parents, although this may influence future inheritance.

[24]Actually, this variable represents the amount of money received in the 12 month period preceding most survey years (1966-1971, 1976). Except in 1976, this information was ascertained only for respondents who were heads of their own households. Thus the variable undoubtedly understates the total amount of money received over the period.

[25]Osman (1977) discusses three means of inter-generational wealth transfers--trust funds, inter-vivos gifts, and inheritance.

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The Center for Human Resource Research

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The Center has acquired pre-eminence in the fields of labor market research and manpower planning. The National Longitudinal Surveys of Labor Force Behavior have been the responsibility of the Center since 1965 under continuing support from the United States Department of Labor. Staff have been called upon for human resource planning assistance throughout the world with major studies conducted in Bolivia, Ecuador and Venezuela, and recently the National Science Foundation requested a review of the state of the art in human resource planning. Senior personnel are also engaged in several other areas of research including collective bargaining and labor relations, evaluation and monitoring of the operation of government employment and training programs and the projection of health education and facility needs.

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The largest of the current projects is the National Longitudinal Surveys of Labor Force Behavior. This project involves repeated interviews over a fifteen year period with four groups of the United State population; older men, middle-aged women, and young men and women. The data are collected for 20,000 individuals by the U.S. Bureau of the Census, and the Center is responsible for data anlysis. To date dozens of research monographs and special reports have been prepared by the staff. Responsibilities also include the preparation and distribution of data tapes for public use. Beginning in 1979, an additional cohort of 12,000 young men and women between the ages of 14 and 21 will be studied on an annual basis for the following five years. Again the Center will provide analysis and public use tapes for this cohort.

The Quality of Working Life Project is another ongoing study operated in conjunction with the cities of Springfield and Columbus, in an attempt to improve both the productivity and the meaningfulness of work for public employees in these two municipalities. Center staff serve as third party advisors, as well as researchers, to explore new techniques for attaining management-worker cooperation.

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